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Turkish Businessmen Discuss State of Economy



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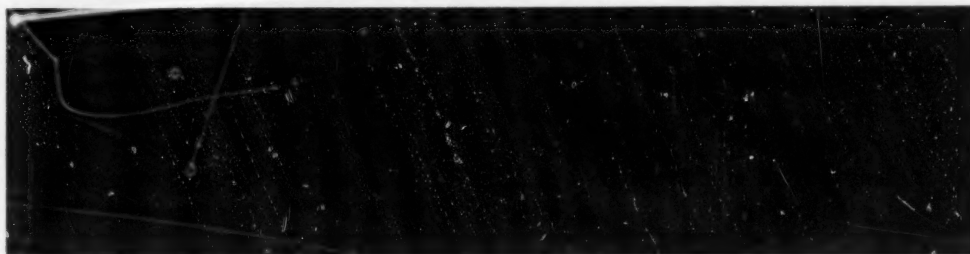
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### TURKISH BUSINESSMEN DISCUSS STATE OF ECONOMY

Istanbul TERCUMAN in Turkish 28 Jun - 2 Jul 81

[Article by Erkan Yigit: "Turkish Economy: Second Half of 1981"]

[28 Jun 81 p 7]

[Text] Introduction

Leaders giving direction to the Turkish economy described for TERCUMAN "the Turkish economy in the second half of 1981." Businessmen and industrialists drew the "graphics" for TERCUMAN of the step by step transition to stability from a period in which inflation had taken off on its own, economic rules were in shreds, the citizenry was crushed under rising prices and labor peace stood in jeopardy.

In our "Economic Tour d' Horizon" with business leaders, we caught signals of a healthy future for a national economy tempered by fire, but also noticed certain "sensitive points" which are still important and remain outside the economic measures which have been taken. Leaders of the economy pointed out during our tour d'horizon that the "national economy is starting to get back on track," but, with an eye to the future, also wanted deficient areas cleared up as soon as possible. In this series of articles, we will take the tour of the economic horizon stage by stage.

[Fuat Suren of Transturk Holding]

Fuat Suren launched into a controversy which appeared on the Turkish economic scene with the 24 January decisions with a denial. "The Friedman model is not being applied in Turkey," he said and made the following comments in defense of Turgut Ozal, who is being criticized in certain circles because they say he is applying the Friedman model:

"These measures are monetary measures. They are being applied within a philosophy of letting the money volume influence the economy. Friedman is the most famous economist who advocates this, but the 'Friedman theory' is definitely not being

applied in Turkey. The measures which are best and necessary for Turkey are measures which Friedman advocates. As for Turgut Ozal, the chief architect of those measures I happen to know that Turgut Ozal has not read Mr Friedman. There is similarity because the medicine to be given for the disease is the same. Turkey's improvement requires monetary measures, because the basic disease comes from money."

Diagnosing "the cause of the disease in money and seeing the cure also in money," Fuat Suren would add the following ingredients to the economic prescription being applied:

"Because the disease comes from money, the treatment must come from money also. I am with these measures 100 percent. Moreover, I think a stronger shock should be applied. Look at Chile. Chile has now obtained a greater success and its economy has recovered. Let's forget Chile's political regime for a moment. Chile's people have economic prosperity. But for 3 years, they had a very hard time. Close to 400 factories were closed; 200,000 civil servants lost their jobs. Let us say this: the measures we have are not as harsh as Chile's. On the contrary, they are moderate. One has to go the whole route to get results in these matters.

"Results cannot be obtained with half measures. Before, money was printed without having the backing in goods and services. Prices skyrocketed because of this. Today, however, there is an effort to keep the printing of unbacked money as low as possible. Windfall profits and earnings based on inflation have now disappeared. This is a fact."

#### Unfounded Complaints

Chairman of the executive board of Transturk Holding, Fuat Suren reiterated the fact that the old profits would not easily return, then put his views on the economic scene in the following perspective: "These easy profits will certainly not come back. What are they? Hoarding, for instance. If money stabilizes at less than the inflated interest rate, certainly it is no risky business to take out a loan and stock up on something with it, because you are getting the money at 15 percent. Inflation is 30 percent. You tie up some commodity and sell it at the end of the year for 30 percent more. Therefore, you get 100 percent profit on anything you import. There will certainly be no profits like this. The people who are used to it will complain, but they are out of place."

Fuat Suren brought our conversation around to exports at one point. As to exports, where we have been floundering for years, Suren said: "Exports are going to be booming, because everyone is going to take his briefcase and go abroad. There are complaints of market shrinkage. The market in Turkey has shrunk, but the foreign market is waiting. Whoever has the business acumen to supply high-quality goods at low prices should have no doubt of his market."

#### EEC

The Transturk Holding board chairman then turned to the EEC, which has also been a topic of controversy for years, being described as the "organization that will be the end of the Turkish economy." Let us hear it from Fuat Suren:

"It is said that if we enter the Common Market, Turkey's industry will be ruined. This view is so wrong. Turkish industry today has to compete with the same people abroad because we are not in the Common Market. But we are successful. For example, Profilo [Holding] can sell all the refrigerators it wants to. These sales in Egypt compete against the Japanese, the French and the Italians. I am more optimistic than the officials. I think we will reach a figure as high as \$4 billion within the year."

Suren began going over the economic problems where there is complaint or criticism, the first being "tight money":

"In fact, money in the economy has not diminished, but it has been more advantageous to put it into savings. Savers are getting high interest. And this brings us to another point: Saving has begun in Turkey. It is being said that sufficient investment is not being made. Well, this is true. But today's measures are prodding the economy towards investment step by step, because the first condition for investment is saving. Foreigners are taking a better look at Turkey and this means foreign capital input will be possible. In fact, too much investment should not be expected in Turkey this year, because Turkey is changing from a closed, centralized bureaucracy to a market economy. We are on an escalator; should it stop in the middle and let us start making investments? It is going in the right direction. I am sure that this year's export boom will be an investment boom next year."

#### New Doors

I interrupted Fuat Suren to ask: "Which sectors will be more likely to have an investment boom? Might weight be given to the agricultural sector?" Suren's answer started opening a crack in some interesting doors:

"Shrinkage of the Turkish market because of the monetary measures is giving direction to investments. Every new investor is thinking about investing in the production of goods to sell to the world. There are some attractive areas in this regard. We might consider meat and fish. You could expand this to cover everything from live-stock to sausage. There has been talk of our mines and forests for years. These unorganized areas could be organized. Minerals could be sold.

"For example, Nixon said in his last book, 'In 10 or 15 years, a chromium shortage will be more important for America than oil.' Turkey has considerable chromium. We should develop that potential. Forestry, unfortunately, is an area in which we are very behind, but we have potential, because it is in state hands. However, not much is being done in this matter. According to what we have learned, our forestry potential is equal to Sweden's. It is necessary to open up this area, but it is not right to think only of agriculture and mining. We have a chance in some manufacturing areas, too."

#### Bankruptcy?

I had another question for the brain behind Transturk Holding: "Certain industrialists are saying that some sectors will be bankrupt within 3 years if these monetary measures continue. What do you think about this?" Suren replied:



"Certainly there is a big difference between an industry opened to the world and one hidden behind high customs walls with a tight import ban. Decidedly, a certain segment of our industry will have a hard time. But in my opinion every entrepreneur should be thinking of his own measures now. One of the hard-hit sectors is the automotive industry. This sector is already having a hard time throughout the world. We are an important sideline of that sector. We make plastics, brakes, clutches. But anyone who tries to use his head will certainly take measures in his own factory. But I do not think there will be bankruptcy.

"The Turkish businessman is very able. In my opinion, this free market will 'clear the air,' because prior to January 1980 while we were up against one problem, there would be another tomorrow. In other words, there was no light at the end of the tunnel. At least today there is a light."

#### Civil Service Pay

The chairman of the executive board of Transturk Holding concluded his overview of the economy by touching on an important topic:

"It is hard to run the state with people who make such a low salary. It is necessary to bring civil service salaries up to a contemporary level. This is necessary in order to get capable and dependable civil servants.

"Unemployment is not as important a problem in Turkey as thought, because most of our unemployed are first generation workers. That is, they have not cut their village ties. If they do not find a job they go back to the village. Second, we have very strong family ties. Even if a person is working, the pot in that family is boiling. Unemployment is not as big a problem as in other countries.

Don't look at the statistics. Those are computations made at a desk. There is no poverty caused in Turkey by unemployment. But everyone should try to create new jobs.

As our conversation was ending, Fuat Suren said, "Wait a minute," and added some comments on "expensive credit," a topic of complaint by many businessmen. "Expensive credit makes investment difficult. Industrialists need relatively cheap credit. It should be made possible for firms to get loans abroad," he said.

After mentioning the high cost of credit, the executive board chairman of Transturk Holding could not help but say a few words on a topic he has espoused before but probably forgot to squeeze into the interview:

"The most important principle for success in foreign trade is to be ready for a buyer's market. This requires know-how and personnel devoted to business itself. Since the number of qualified personnel in Turkey is rather limited, it has reached the point where we have to channel our efforts into specific priorities. I would recommend that Turkish firms go into the Middle East, the Common Market and the southern Mediterranean, in that order. The second ~~best~~ would be the United States, Japan and the Far East."

#### Ali Kocman [of TUSIAD]

We started the interview with Ali Kocman by asking: "Would you make a general assessment of the course of the Turkish economy now that we are approaching the second half of 1981?"

"Easier than recent years," Kocman said and continued as follows:

"It is easier than in previous years to estimate what Turkey's economic situation will be in 1981, because Turkey has continued to apply uncompromisingly, especially within the discipline since 12 September, the measures adopted early in 1980 and has obtained sooner than expected some of the positive results expected from these measures. Principal among these are 'success in halting inflation, an important thrust in export and worker remittance revenues and getting the citizenry to start saving.'

"The freeing of interest rates in conjunction with reduced demand, meanwhile, allowed money to function at a rate close, or even equal, to the rate of inflation for the first time in Turkey. This is a first for Turkey. The problem is not hidden in any miraculous formula to which only Turkey has the answer. Actually, it is an answer that all nations which apply inflationist-antiinflationist measures are looking for. Elimination of economic depression definitely should not be taken to mean the return of the previous economy oriented to the domestic market and domestic consumption, as some circles perhaps expect."

#### Realistic Estimate

Ali Kocman turned to the topic of "Turkey's struggle to find foreign markets," and continued as follows: "Exports are expected to exceed the \$3.5 billion goal in the economic program. This estimate is not too optimistic. On the contrary, it is a realistic estimate. In addition to our classic exporters and classic export products, businessmen and industrialists in Turkey have entered a period of exportation at all costs. I would especially like to point out that most of the export incentives which had been hoped for from the governments for many years have in fact been adopted by recent governments and the present government.

Exportation today has been greatly facilitated as to formalities and red tape. Of course, this is the first stage. The important thing is to be able to produce and sell at costs that will be competitive on world markets.

"The entire world is undergoing an economic crisis. This means that practically all the world's nations are trying to sell more and buy as little as possible. This is what exporting nations have to deal with now. And Turkey is no exception.

#### Pilot Zone

Ali Kocman, president of the Turkish Industrialists' and Businessmen's Association [TUSIAD], stressed the need for us to concentrate on the Arab nations in our exportation efforts and said that choosing "pilot export zones" would be unavoidable. Kocman's comments on this follow:

"We have a second problem. The developing nations are all gaining expertise in specific areas of exportation at the same time. For example, there is a textile boom in all the developing nations. And a food industry boom. From this standpoint, Turkey must choose its own pilot zones in the development of exports, concentrating as much as possible on our close neighbors, the Arab nations. This is important not just in the export of goods, but of services as well. Our success in engineering

services stands out. Turkey has reached a level to export qualified men, not just workers, but men qualified in every branch. Advantage must be taken of this in the comparison with our neighbors. Indeed, the Turkish private sector has gained enough expertise to be able to undertake new enterprises and set up business administrations in Arab nations. The most must be made of this also."

In the course of expressing his economic views, Ali Kocman pointed out that "the industrialist had to produce high-quality goods." "The citizen is more cautious than he used to be in meeting his everyday needs and in his short- and long-term demands, looking for the difference between various products," he said. The TUSIAD president drew attention to the need for consumer protection in a market economy as follows:

"Having to apply a more qualitative price which is more expressive of value but also more open to competition is actually a factor which protects the consumer in the market economy. I believe that this will be happening in Turkey soon."

#### Employment

On unemployment, the parasite on Turkey's economy, Ali Kocman expressed the following views: "The first thing that comes to mind to resolve this problem is that thought might be given to initiating some large state contracts in which the state could employ large numbers of men instead of just a few and starting the investments in certain large public works services. Thought should also be given to attracting a segment of the population from the cities back to the village as agricultural workers. The best hope for the future of agriculture is to recognize Turkey as a nation with the potential to increase its production significantly through modernizing its agriculture and capitalizing on what it has. Greenhouse production and fruit and flower cultivation have for years seemed to us to be small, idealized businesses. But other nations are making billions on them."

#### Automotive Industry

At one point in our conversation, the TUSIAD president spoke of the automotive industry, which he sees as having a separate importance. Kocman said that the problems of the automotive industry would persist "if the economic measures being applied in Turkey today continue," and expressed the following views:

"What is being shown as one of the most important causes of the slump is the high cost of bank credit, so high that industry cannot operate. Following the freeing of interest on 1 July 1980, the banks raised the interest they pay on deposits to a very high rate, which put them in the position of demanding high interest on credit to merchants and industrialists. As there is a demand for credit to be eased, it would be useful for industrialists and businessmen to get together and discuss it with the principal banks and the Central Bank. The constant criticism of the banks is actually detrimental to the economic structure and it is impossible to advocate this. Moreover, in putting today's monetary policy into effect in its present form, a reduction in the interest paid on deposits, on savings, was expected at the end of 1981, and this would automatically bring a reduction in credit costs."

Our economic discussion with TUSIAD President Ali Kocman concluded with Kocman making the following comments: "Turkey has to employ stringent antiinflationary



measures. This is unavoidable. Britain and Germany have had to do the same thing. In short, this is a sign of the times."

[29 Jun 81 p 7]

[Text] [Feyyaz Berker of Tekfen Corporation]

Feyyaz Berker launched into the tour of the economic horizon as follows:

"The desire to correct the deficiencies in too short a time has brought other headaches with it."

Contending that we must admit that we are paying some high prices to prevent inflation, "because profits made in the inflationary period were profits bloated by inflation," Berker said, "An economic structure was formed accordingly. Now in a time when inflation has stopped and is backing up, the problems present a very different character as compared to this old structure."

#### Shock Treatment

Stating that a shock treatment was needed to prevent inflation and encourage savings, Feyyaz Berker sees high interest rates as the first stage of this treatment. Let us hear from Berker his view on the interest rates "bemoaned by industrialists and blessed by savers": "Raising deposit interest to 50 percent was a shock treatment. Turkey is a good example for the West. Advocates of a stronger shock than the doses customarily used in the West to prevent inflation are showing Turkey as an example. In fact, another shock treatment was needed in Turkey to accustom the populace to saving, but this high interest on deposits raised credit interest to 65 percent to 75 percent. The cost of money is now one of the costliest elements in the industry sector."

I asked Feyyaz Berker, "What would be the outcome of producing at high interest?" Hardly stopping to answer my question, Berker went on to say,

"The day will come when prices will again reflect true costs. High credit interest means cost inflation. We have to deal with this as an important factor. It is a fine thing for the Turkish public to get used to saving, but interest that is so high as to choke the economy stimulates cost inflation. Therefore, it is not favorable to the saver. Moreover, this situation increases production costs, and production drops off."

#### Correct Decisions

"When an industrialist who needs money liquidates his stocks by selling below cost, it does not eliminate his costs. Prices, therefore, are going to reflect these costs sooner or later and the effect will be to stimulate inflation again. From this standpoint, as long as inflation has been reduced to the point where we have it today, we can see the need to reduce the interest on these deposits, which are becoming very expensive for the banks, and deflect it to the industrial sector today."

"I would like to point out the need within the major goal of general economic measures to make decisions in keeping with the current and new economic conditions."

The success of an economic policy closely follows the conjuncture of the marketplace and the world in general and, whether it be in money-credit policy or foreign exchange rate adjustments, making the correct decisions within flexible guidelines which present continuity is a must. Bank deposit interest in the West stays two or three points ahead of inflation. If the rate of inflation falls into the 30's in Turkey, the need will also arise to keep deposit interest ahead of it at a given rate as is done in the West. And this depends on the introduction of a deposit interest policy adjusted according to the rate of rise and fall of the rate of inflation and free market conditions.

"A certain amount of relief may appear in the marketplace thanks to the improved purchasing power of personnel and workers as a result of tax payments, which since May have been withheld at the old tax rates but will be made according to the new tax brackets after April, as well as to the money supplied as base prices for agricultural products are announced, the release of certain blocked monies and the new inventory exemption and assets declaration. Sales may pick up in the fall."

Feyyaz Berker stressed the need for rejuvenation of the automotive industry and the construction sector also and called for certain different measures to be taken in this regard. He continued as follows:

"I do not think widescale rejuvenation of the construction and automotive sectors will be possible despite easements that will come in the months ahead. I believe more serious measures will need to be taken. I do think the decision to encourage public housing will be effective in the short term for this. The basic thing in this context is the balanced distribution of people's savings among such resources as stocks, bonds, housing and banks. This balance is necessary in the short term."

#### Chance May Increase

Asserting that "the key to the export doors" was the removal of certain obstacles, the chairman of the Tekfan Corporation executive board expressed the following view:

"We are undergoing a critical period. Now that exports are being encouraged, we have the opportunity to lower costs by working at full capacity. Therefore, the chance of export opportunities will increase with the reduced cost of money parallel to this. Otherwise, by producing less and having it cost more we will reduce our export opportunities by that same degree. And moreover, while Turkey is encouraging exports as exportation seems to be the only way out for Turkey today, it earns some foreign exchange in exchange for the subsidization or tax rebates or easy credit. This foreign exchange has a cost. We are unable to compile very realistic accounts while accounting for this.

"In other words, when Turkey exports an item which is 100 percent domestic, its earnings are high. This makes a terrific contribution to foreign exchange. Between the bill we pay for incentives and what we import, our accounting of the cost which we called 'foreign exchange cost' cannot be realistic on the sector or commodity basis. We cannot follow the market and keep this up for long.

## Discrimination

"So we are losing a lot because of this. Sometimes, because a sector has strong influence, we give too much encouragement to a commodity which brings Turkey little foreign exchange. Encouragement policy should be long-term policy. The state, the public and private sectors and the banks should manage this system together, within a dynamic structure without getting bogged down in the bureaucratic mechanism."

Leave it to the former TUSIAD president to come up with another different idea on exports. According to Berker, there should be a "Punishment and Oversight" system in exports. Here is how he explained it: "We should have a control mechanism so that this would be possible even after the exporting has been done. You could always be punished by turning back. We are always trying to make water run uphill in Turkey."

Berker expanded on a topic of recent controversy by answering as follows the question as to "which sectors should receive priority": "I have no preference among the sectors. The agricultural and industrial sectors complement each other. I do, however, favor much more support for agriculture in the economic structure. I would like to give an example. America has the strongest agricultural sector in the world today. It is able to produce at very low cost because it has the means to produce on a large scale. But it has an industry backing it up in order to do this. Turkey has a great deal of unexploited potential in agriculture. We must approach this potential by taking both sectors into account. Excessive subsidies are being paid. They do not go into savings, but create inflationary pressures. They are not shifted into industrialization, either, and this is where a structural aberration comes in. Very low base prices, however, keep farmers from increasing production. This is why the fine tuning of base prices requires taking all factors into account."

Nuh Kusculu [Executive Chairman, Istanbul Chamber of Commerce]

Nuh Kusculu approaches a general view of the Turkish economy in the second half of 1981 by looking from the outside in. "Negative developments in the world economy in 1981 are surely able to have a negative effect on the Turkish economy. Especially anti-inflationary measures to restrict demand in the Western industrialized nations presumably reduce demand for our export products and bring prices down. In fact, world raw materials prices took an all-time dive of 5.6 percent in May 1981. Intoxicants declined 14 percent and cereal grains 4 percent," he said.

Kusculu, chairman of the executive board of the Istanbul Chamber of Commerce took note of the squeeze on employment opportunities engendered by the economic recession in the developed nations, expressing his views as follows:

"From March 1980 to May 1981 in West Germany, which is important from the standpoint of our worker remittances, employment shrank 1.5 percent in the investment goods industry, 3.5 percent in the consumer goods industry and 4 percent in the construction sector."

"However, despite these negative developments in the world economy, the 24 January decisions which went into effect at the beginning of 1980 continued to have positive results in early 1981."

"The stabilization program, aimed at reducing the rate of inflation to a reasonable level to normalize the economy, has been realized to a significant degree. In fact, while the general level of price increases from April to April in 1979-1980 was 100.1 percent, it fell back to 32.2 percent from April 1980 to April 1981. Total price increases in the January-April quarter of 1981 were 2 percent. Thus we may suggest that the annual price increase rate this year will move along at below 40 percent.

Nuh Kusculu then continued as follows:

#### Firm Foundations

"The release of interest limits as a natural result when the free market mechanism began to work, by encouraging saving, made it possible for investment to be based on sound resources. Savings deposits increased 7.5 percent in the January-April 1980 period, but rose 30.1 percent to 461.2 billion liras in January-April 1981. With the especially high interest offered on time deposits, they rose 65.3 percent in the first 4 months of this year."

Noting that the "realistic and flexible exchange rate policy" with "day to day foreign exchange rates" encouraged exportation, the executive board chairman views our export situation as follows:

"In the first 4 months of 1981, exports brought in \$1.332 billion in foreign exchange. Thus a 42.8 percent increase was registered over last year during the same time. The increase in exports of industrial products to Middle Eastern nations figures prominently in this growth. In fact, while the share of industrial products in overall exports from January through March 1980 was 31.1 percent, it rose to 39.4 percent in the first 3 months of 1981.

"Meanwhile, worker remittances rose 63 percent to \$1.643 billion in the first 5 months of 1981."

In this part of our "tour of the economic horizon," Nuh Kusculu allowed for a slump, saying:

"As a natural result of the tight money and credit policy adopted to prevent inflation vis-a-vis the positive developments I have been talking about, consumption, and especially consumption of durable goods, has shrunk significantly, as we are seeing in the slump in the automotive industry and the construction sector.

#### Hard To Do

"This outward orientation, however, is hard for the reasons mentioned above, but, still, it also brings hope. We all have to admit that our country's most pressing problem is now the 'balance of payments' deficit. The only way for us to increase production and reduce unemployment is to find more foreign exchange input. Yet foreign credit and foreign capital opportunities remain very slim because of the inadequacy of the measures taken. We have to make Turkey attractive to foreigners.

"High interest rates have raised the deposit and therefore domestic savings volume, but have cut back the level of spending. The growing deposits are being channeled



into business through selective credits. Selectivity has been introduced into credit by keeping export credit cheaper and the interest on investment credit lower. However, we are seeing the need for broader exportation opportunities.

"When our companies already have bad loan credit rates and have to contend with exchange rate differences as well, they come up against a very large interest burden."

The chairman of the Istanbul Chamber of Commerce executive board continued his survey of our economic problems saying, "There are still problems in our economy which limit operation of free market economy principles and prohibit optimal distribution of resources." He then went on to express the following views:

"For example, no cartel law has been passed to prevent agreements between companies. The problem of rationalization of the State Economic Enterprises has been unable to be solved. The severance pay fund bill has still not been made final. Export insurance has not been realized." Then after a short break in the "economic tour," Kusculu listed the following answers to the question of "what should be done":

#### What Should Be Done

"International relations, import and customs barriers should be gradually reduced to make our industry more competitive and protection policy should be attached to a timetable by sector.

"--Export insurance should go into effect as soon as possible.

"--We should go ahead and set up a free zone in order to make foreign competition possible, to develop the transit trade and to be able to reduce internal production costs.

"--We think it would be well to conclude bilateral agreements with other nations on the order of the ones signed with Austria and Norway to prevent double taxation of income and assets with an eye to encouraging foreign capital and providing access abroad for our nation's entrepreneurs.

"--Energy investments should weigh heavily and delays in these investments caused by red tape should be prevented. Moreover, in order to take advantage of the potential in the small and medium-sized bodies of fresh water in our country, the ability of private organizations to build minidams, either individually or in combination, should be recognized.

"--Rationalization measures to lower costs and raise production at the state economic enterprises should be devised and put into effect as soon as possible, because the most important problem in our country at the moment is 'production, not at any cost, but high-quality, low-cost production.'

"--To prevent erosion of existing capital reserves in our country, the 'reevaluation instrument' should be placed into effect as soon as possible to devise the multiples envisaged in annex 11 to the Tax Procedure Law.

"--To ensure the full operation of competition, a cartel law unique to the conditions in our country should be passed as soon as possible."

[30 Jun 81 p 7]

[Text] Yilmaz Adiguzel [President, Aegean Chamber of Industry]  
Born 1926. Married, two children. Graduate of Izmir College of  
Economics and Commerce. Specialized in shipping economics and  
management at the London University Department of Economics and  
Political Science. Became member of British Transportation  
Institute in January 1952. Trained at Welford Mines Ltd in  
Britain. Chairman, Aegean Chamber of Industry Assembly, 1969-  
1975. 1975 to present, Aegean Chamber of Industry president  
and Matas-Piyale Company general director and administrative  
assembly chairman.

Aegean Chamber of Industry President Yilmaz Adiguzel began the "tour of the economic horizon " by speaking of one particular problem. "The Turkish industrialist has been experiencing steadily tightening credit for 4 or 5 years, and is doing so now," he said. Yilmaz Adiguzel expressed his views as follows:

"It is possible to cluster the causes of this problem around several points. First, increases in total credit volume in recent years has lagged behind increases in the prices of industrial inputs. This situation created a serious imbalance between credit supply and demand. In fact, real savings declined in the past 4 or 5 years.

"Second, the gradual shift of Central Bank resources largely to the public sector, especially for Treasury use, stepped up the transfer of funds from the private sector to the public sector. This seriously limited the industrial sector's opportunities to make use of rediscount credits. For example, in the Aegean region, rediscount limits for firms and banks has remained almost stable for the past 3 years.

"Essentially, a shortage of operating capital for an industrial sector able to operate at an average of only 50 percent capacity is a serious matter. The shortage of operating capital was prevented from being even worse only by having been forced to operate at low capacity."

#### In Distress

Stating that the high cost of credit had industry squirming, Adiguzel continued as follows: "Since the release of interest on time deposits and credit in July last year and the rise of credit interest to 60 percent, the cost of financing has been added to the problem of tight operating capital. The industrial sector is presently groaning under the shortage and high cost of operating capital.

"The rapid rise of financing costs at a time when the shortage of operating capital was reaching the limit created two important problems in the industrial sector. First: Since July of last year the increase in financing costs has outstripped the increase in prices. Second: The share of financing in overall costs rose from 5 percent to 20 percent. These two things added together threw some operations out of business. In fact, while the number of new businesses formed in the first four months of 1981 declined in comparison with a year earlier, the number of bankruptcies registered a sharp increase.

"The shortage and high cost of operating capital, the rapid shrinkage of domestic demand and the excessive accumulation of finished product inventories have begun to create even more important and dangerous problems, because for the past 5 or 6 months monthly stock financing costs have been running ahead of monthly price increases, and this situation is creating serious anxieties."

#### Hard to Stay Alive

Adding ways out of the shortages and hardships to our tour d'horizon, the Aegean Chamber of Industry president continued as follows:

"There are two major things our industry can do to get out of these straits and dangerous waters. First is to try to eliminate the effects of shrinking domestic demand by giving foreign demand a chance, that is, by turning to exports, and then to follow this up immediately with raising capacity use. In other words, for us to move ahead to a new period of sound and balanced economic growth, it is necessary to take measures to raise capacity use and support the tendency to invest. An economy which can use its existing production capacity at only 50 percent and whose annual fixed capital investments continue to regress in real terms cannot survive long.

"In order to get on as we should with raising capacity use and rejuvenating investments, which we considered the two major goals to be achieved, it was necessary to prevent inflation which creates such large imbalances in economic life and to eliminate to an extent the foreign exchange squeeze. Appreciable success has been achieved in these two important matters. Now the time has come to pass on to the second stage, that is, to take measures to increase capacity use and complete the investments which have been begun."

#### Measures List

As to the measures which should be taken in this regard, Yilmaz Adiguzel listed them as follows to conclude our conversation:

"We may enumerate as follows the measures which should be taken to do this. First, holders of liquid capital should be given a tax break to rejuvenate the stock market. In conjunction with this, we should move toward flexible legislation for a viable capital market. Business assets should be revalued without waiting for these things. Only in this way will it be possible for the economic and industrial materials to filter down. It is impossible otherwise for businesses to increase their net assets. And as long as business assets do not increase, it is impossible to resolve the problems of excessive credit demand and expensive financing.

"At present the stock market is facing heavy competition from the bond market and the money market. One-year deposits and bonds are not usually seen in any country in such strong, unfair competition with stocks. In fact, stock prices have been steadily dropping for the past 2 years and are even below 1974 prices. I do not even think it would be wrong to say that stock market transactions have completely stopped.

"To sum up, inflation has been brought under control with the monetary measures taken based on a tight money and credit policy and some tangible relief has been

achieved in our foreign exchange inputs. Nevertheless, the economic slump which this policy created has reached a point to threaten the future of the economy. Now I think the time has come to repair the economic slump."

Prof Dr Erdogan Alkin [of Istanbul University]

Born 1936 in Istanbul. Middle school completed at Sisli Advanced High School. 1959 graduate of Istanbul University Faculty of Economics. Later received diploma in Economic Planning from the Institutes of Social Studies in the Hagur. Completed his doctorate in 1964, became assistant professor in 1967 and full professor in 1973. Is now assistant dean and teaching member of Istanbul Faculty of Economics General Economics Department. Married and having two children, he is also a member of the executive board of Transturk Holding.

#### Professor Alkin's Views

We now hear a professor's assessment of Turkey's general economic status in the second half of 1981. Istanbul University Faculty of Economics teaching member Erdogan Alkin says that one of the most important problems of the economy in general is "inadequate exportation."

Let us listen to Professor Alkin:

"Today, the rich and poor nations alike are competing fiercely for exports in order to obtain the little pieces of paper called foreign exchange which they consider at least as important as gold. It is these little pieces of paper which can obtain for them the energy they cannot produce themselves, raw materials and even certain consumer goods. Exports today are accepted as an indicator of development and industrialization, the symbol of deliverance from the status of less developed and the basic condition of economic independence.

"The basic problem causing the large deficits in foreign trade which sales of services cannot cover and therefore continuous foreign indebtedness is inadequate exportation."

Stating that exports had increased only 6-fold in the past 15 years and that their percentage share of national income had not changed at all, Erdogan Alkin returns again to exports, which he sees as Turkey's number-one economic problem:

"There are studies showing that many of the factors blamed for inadequate exportation have become outmoded. For example, it is frequently suggested that the major causes of inadequate exportation are inadequate production and a thriving domestic market. Yet, in making an international comparison using the same standards, it turns out that Turkey's exports should be at least 15 percent of national income, or around \$6 billion. Moreover, Turkey is seen in this comparison as 'the country most closed to exportation.'

"Furthermore, this comparison also indicates that there is no scientific significance to the excuses frequently offered for inadequate exportation such as economic



system, political regime, religion, race, region and dependence on or independence from imperialism. Actually, the major cause of inadequate exportation in countries like Turkey is 'implementation of the wrong exchange rate policy.'

Faculty of Economics teaching member Professor Alkin went on to describe drawbacks in exportation:

"When the move to partial freedom in foreign trade was made back in 1950, the foreign exchange rate in Turkey was overvalued by 37 percent. That is, although domestic prices at that time were 37 percent higher than prices in the countries to which Turkey sold goods, the current exchange rate did not alter these differences. The overvaluation rose as high as 117 percent by 1957. This situation was corrected by the 1958 devaluation, but, because we insisted on a fixed foreign exchange rate policy, domestic prices which were rising faster than world prices brought the exchange rate back to an overvaluation as high as 53 percent by 1969.

"The 1970 devaluation corrected this problem temporarily by slightly undervaluing the Turkish lira, but the fixed exchange rate policy again caused an overvaluation of 77 percent in 1974. Exchange rate adjustments made after that until January 1980 all failed to keep domestic prices and foreign prices in harmony and thus tethered exports."

#### Other Causes

Professor Erdogan Alkin then looked from a different perspective at inadequate exportation, which he views as the most important problem.

"Another cause of inadequate exportation is high customs duties. Taxes and similar fees received from imports create a second de facto exchange rate much higher than the official rate. When the exchange rate is raised to encourage exports, the absolute difference between the de facto rate and the official rate broadens, worsening this conflict. There is no way to remedy this conflict but to revise customs duties. Yet tariffs supply significant tax revenues for the public sector. This is why there can be no question of revising revenues downward in the short term. Perhaps this is the second most important dilemma next to the fixed exchange rate that Turkey fell into inadvertently as regards exports."

#### How Shall It Be Resolved

Erdogan Alkin asks himself how Turkey will solve these dilemmas and answers his question:

"How can Turkey beat these dilemmas? How can it bring its exports up to a level adequate for its foreign exchange needs? The measures considered the most difficult in this regard are perhaps the ones easiest to apply. In other words, problems such as recognition-marketing quality and infrastructure-standardization can perhaps be solved. But solution of the two dilemmas we touched on above is not easy, because the second requires a considerable sacrifice of resources by the public sector and the first requires a change of mentality. And mentality is the thing hardest to change in developing nations."

[1 Jul 81 p 7]

[Text] Mehmet Yazar [President, Turkish Union of Chambers] born in Kayseri in 1936. Graduate of Istanbul Technical University Faculty of Engineering. Speaks German and English. Is now chairman of Ankara Chamber of Industry executive board.

Owner of Yazar Pump Factory. Married and the father of two children.

Twice elected chairman of the Turkish Union of Chambers, Mehmet Yazar began his evaluation of the general status of the Turkish economy by saying, "We have extinguished one fire." Noting that the economic fire had been extinguished in as short a time as 1 year, Yazar said, "There was a grim picture in which money had no value, prices changed over night, no economic accounting was being done, everyone avoided saving and spent unnecessarily, shortages and long lines increased, the black market flourished, income distribution was topsy-turvy and economic, social, political and moral values were gradually being lost. We had become a society which lived for today with no thought for tomorrow, where saving was the last thing on anyone's mind. The direction we are taking now, however, has a value which cannot be underrated vis-a-vis the world situation." Underscoring with these words the hazards of a year ago, Mehmet Yazar looks at where we have come today as follows:

"Let me summarize the results we have achieved today in this way: The total rate of price increase in the first quarter of 1981 stayed between 5 percent and 10.2 percent. While the annual inflation rate based on April was 122.7 percent in 1980, the 12-month total between April 1980 and April 1981 fell to 34.1 percent. The balance of payments is improving. In 1980, export revenues rose 10.7 percent and workers remittances rose 22 percent. In the first 4 months of 1981, however, export revenues rose 43.3 percent and worker remittances rose 13.5 [as published] 13.5 percent. As a result of both these two situations and having been able to obtain the needed foreign credit, our gold and foreign reserves which stood at \$706 million at the beginning of 1980 rose to \$1.224 billion by March 1981. In this context, foreign exchange transfers for imports are able to be made without delay and the absences and shortages of goods have disappeared.

#### Be Economical

"The 'shortage psychology' in society, which had a far-ranging effect on our economy, has thus been broken. A trend toward correcting the injustices in income distribution has come about for such reasons as the break given the fixed-income sector with the new tax laws, the stabilization of prices and the high interest being paid on deposits. Large increases occurred in total savings after the decision on interest in July 1980. Time deposits increased approximately 150 percent (including certificates of deposit) by the end of March 1981 as compared to early 1980. Moreover, there have been positive developments in labor peace. Tension in labor-management relations has been eliminated by making certain criteria binding on labor contracts, albeit temporarily, after 12 September 1980, providing safety of life and property in the workplace and lifting strikes, lockouts and slowdowns. I would like to stress another positive development which bears a separate importance beyond

all these. This is the development of a completely new level of thinking in every sector of Turkish society in parallel with the radical changes in our economy. Every one now has to stress saving, be economical, do everything possible to open the economy to the outside and for exports and work hard to make a good living."

#### Critical Slump

Union of Chambers President Mehmet Yazar squeezes "two important problems" between the fire that was put out and the point to which we have come.

"We have two important problems. First is the 'critical slump in the marketplace' as a result of shrinking domestic demand. The other is the 'inadequate level of investments.' Certainly these problems are a natural result of the tight money-credit measures which had to be taken to prevent inflation. Nevertheless, I would like to say that if this approach, which looks at the problem from the standpoint of preventing inflation alone, continues, I am afraid that our economy will be faced with new, very serious problems of a different nature in the future.

"What has to be done at the point which our economy has reached today is to somehow surmount the present recession without stimulating inflation, which has been brought under control. We can neither ignore the steady closing down of businesses nor neglect our duty to create new and sound job opportunities. Moreover, we have to step up our developing exports and ensure their continuity.

"Increasing production and gradually rejuvenating investment activities, then, have vital importance for these reasons. We have to find and create sound resources to do this.

"Despite this important need, the private sector has not, unfortunately, retained in recent years its push and drive in investments, though it accounts for 50 percent of investments, 75 percent of employment and 85 percent of exports. I am happy to say now that with the coming of a generally safe environment, a revival of these activities has begun. The development, however, is still far from adequate.

#### No Resources

"The most important element prohibiting private sector initiatives in investment at the moment is the lack of resources. Doubtless, the changes in the tax laws were unavoidable measures required for economic stabilization. However, because fiscal goals were kept in the foreground in making these arrangements, the value of the economic goals which are of vital importance for the future of our economy and the positive results they would create were ignored. Because of this, the establishments which are the primary element in creating the necessary resources for investment have suffered great losses of funds which will have to be paid for presently. The investment incentives in the amended Corporation Tax Law turned out to have no real and practical value. It is impossible to understand or explain why this law would grant certain exemptions to corporation earnings, but still impose withholding taxes even if profits are not distributed. Instead of solving the corporation tax problem within the framework of our economic realities, there was an attempt to gloss it over by lifting the 3 percent fiscal balance tax on corporate earnings as if giving a compensation prize. Although the importance of incorporating seemed to

be accepted and valued at first, it was later viewed from a different perspective, and we hope that the opportunity will be found to review this problem and give it the attention it should have.

"On the other hand, there is another matter I would like to stress which we consider important as to the creation of business resources. This has to do with revaluing corporation balance sheet assets according to current values. If revaluation were possible, it would increase corporation investment strength. Legal work on this should be completed and placed into effect as soon as possible."

At one point in our conversation, Mehmet Yazar called for the devising of a more orderly system of "stocks and bonds markets" in order that an "investment fund" might be formed. We continue to hear the Union of Chambers president:

"From the standpoint of being able to channel long-term funds into industry, the law on capital market regulation should go into effect as soon as possible. However, in writing the law, care should be taken not to push the capital market into a paralyzing oversight system that would be hard to enforce. Moreover, it should be taken up in conjunction with the draft laws on the stocks and bonds exchange and certification of financial advisors."

Noting that savings had increased as interest rates went up, also raising the cost of finding money, and that "it is true that this has a deterrent effect on investments," Mehmet Yazar offered the following perspective on this topic, a subject of complaint by many industrialists lately:

"Resolution of the problem requires introduction of a system having special conditions to encourage investments and low credit costs. In fact, a credit system starting with this concept and offering investment incentives by way of rediscount rates has been developed and put into effect. We consider this development a positive step. What needs emphasis here is finding a steady source of adequate funds for investment-oriented rediscount credits and making sure the system works without interruption."

Mehmet Yazar continued our economic tour, pulling in at an additional "two points" besides the two already mentioned.

"The first of these is the decline in crude oil production and the other is the decline in mining output. Crude oil production by Turkish Petroleum, a national organization, has started an upward trend with the opening of new wells. This organization, is also steadily expanding its exploration activities. However, the other oil companies, including the foreign partnerships, are showing a drop in crude oil production. It is worth noting that their oil exploration is rather limited by the exploration permits they hold.

"Turkey has 3 in 1,000 of the world's mineral reserves. Nevertheless, there is still no forward thrust in mining despite our great potential for production and exportation. Indeed, there has been a decline in recent years. Coal mining activities have dropped off in particular. Nationalization of private sector mines is a significant factor in this.

"Advancement in mining requires top flight management and advanced technology. The ability to bring in foreign capital while bearing in mind the national interests



has great importance here. However, we cannot expect foreign capital to be interested in joint management as long as nationalization is in effect. If we want stepped-up investments in this area, we need new arrangements indicating that exploration and operation are open to the private sector."

#### Investments

Union of Chambers President Yazar turned his "perspective on the economy" to investments, saying, "As to investments, our country will need foreign resources for some time longer." Yazar continued: "Being able to find foreign capital and foreign credit has great importance for both the public and private sectors from the standpoint of accelerating investment activities and making the most of our own resources in the shorter term. Initiatives in this direction should be encouraged and stressed. We must mention at this point, however, the problem created by exchange rate differences in private foreign credits. Those who have taken advantage of such credits have increased their debt loads several times over because of devaluations and the new exchange rate adjustments. This bad example is still having a deterrent effect on those who would like to take advantage of foreign resources."

Mehmet Yazar referred to exportation as the "present and future of our economy" and said, "We have to look at this topic with a very different eye."

"We must turn a different eye upon our exports from the standpoint of achieving a healthy balance of payments, avoiding a squeeze caused by inadequate demand on domestic markets as exists today and ensuring continuity in sales and transportation.

"We must not give up if certain initiatives prove disappointing at first. In fact, opening to the outside and being able to compete on world markets is hard for a country like ours which still lacks an adequate accumulation of experience. But the only way to overcome this difficulty is to proceed tirelessly, admitting no defeat. In fact, our contractors have done just this and today have around \$5 billion in foreign contracts.

"Since the 24 January decisions, a realistic exchange rate policy has been pursued and measures have been introduced to encourage exports. These measures and practices have played an important role in the recent development in exports. Introduction of the export insurance system which has been talked about so long would strengthen the development in our exports even further. However, certain infrastructure problems such as transportation and communications are still waiting to be solved.

#### A New Complaint

We moved on to discuss with the Union of Chambers president another topic of recent complaint. Yazar described the "prepayment system" as "not in conformity with the facts of our country" and expressed his views on this topic as follows:

"This topic has drawn significant complaints and counter-complaints. Let me list some of them:

"--The 50,000-lire base is too high for low-income taxpayers in some regions.

"--Since the commission conducted its studies over a very short period of time, large mistakes were made in their assessments.

"--Partners in collectives, limited-liability companies and unincorporated businesses are assessed separately, and by increasing the number of taxpayers although there is only one establishment, the resultant tax exceeds the ability to pay.

"--The prepared tax system applies to everyone, even taxpayers who quit their jobs or die.

"--Regional and local conditions have not been sufficiently taken into account."

Asked what should be done after he expressed these complaints about the prepayment system, Yazar replied "In this case, it would be appropriate to take into account the slump in the markets and the shortage of money and allow additional payments periods. The necessary legal arrangements should also be made to comply with the practice."

The Union of Chambers president managed to squeeze in the following comment during our "tour of the economic horizon":

"We should not be expected to be happy about our tax money going to support the deficits of the State Economic Enterprises."

Mehmet Yazar again selected "two points" on the tour d'horizon: "It is known that the exchange rates are set daily and announced by the Central Bank. We see this as a positive development towards transition to a free economy. However, this practice has created problems on two points which bear looking into.

"One is the difficulty created by rate changes arriving on the scene late for one reason or another after transactions have begun. Second is the difficulty in determining the current rate on which duties will be based when getting goods out of customs."

#### Hard Cases

The "automotive industry" is an arm of industry which Mehmet Yazar considers loaded with problems. Let us follow his rundown of the problems:

"The rather small and medium operations in these arms of industry are struggling for their lives. They are essentially the ones worst affected by the squeezes and slumps in the domestic market. They constitute the belt tightening of our business life. Abandoning them to their fate is impossible.

"We must pay more serious attention to the problems of the automotive and construction sectors."

We listen to Yazar on another topic. Taking a citizen's approach to the recent price hikes, Mehmet Yazar says:

"The price hikes are understood to be aimed at covering the deficits of the state economic enterprises and providing more revenue to the budget. Society is paying

the bill for the failure of the state enterprises to operate in any rational way, striking a balance between their income and outlay. They still continue to be the public sector's largest source of transfers."

Concluding our 'economic tour' with chamber of Unions President Mehmet Yazar, he brings our tour to an end by once more introducing another problem: "Development means industrialization. For a nation to be wealthy or build factories alone is not industrialization. Industrialization is being able to produce know-how and technology and being able to achieve a new way of life. Being able to achieve the level desired as a result of development efforts depends on building a balanced structure in our economy of the industrial, agricultural and services sectors. In our country, agriculture is the driving force of industry and industry is the engine of our development."

[2 Jul 81 p 7]

[Text] Cevher Ozden Founder of Broker Kastelli]

Cevher Ozden was born in Surmene in 1933. He took a first at the Commerce Lycee and began his business life as accountant at the Saray Cinema in Beyoglu in 1957. In 1960, he began working as an agent partner on the Stock Exchange. He established the Broker Kastelli firm in 1963. He is now chairman of the executive boards of three companies represented on the Stock Exchange. Cevher Ozden is also chairman of the executive boards of six companies engaged in production in the construction sector and certain branches of industry. Cevher Ozden is married and the father of four sons.

Cevher Ozden, known as Broker Kastelli, sometimes looks at Turkey's economic problems as a broker and sometimes more as an economist. Broker Kastelli begins our economic discussion with a "call for savings," because his business is based on savings. Only this time Kastelli wants "energy savings" more than money savings.

Going on to say that "Turkey has a very bright future," Kastelli adds, "Turkey is very lucky both as to natural resources and its agrarian structure. We must organize these riches. An export mobilization has now begun. The businessman now understands that the philosophy of staying within four walls, producing and consuming in Turkey alone, no longer applies. So they have mobilized to find foreign markets."

#### Saving the Middle Class

Cevher Ozden expresses the following views on the 30 June decisions made in light of the 24 January decisions, that is, "the free interest economy measures": "This decision opened the way for great changes in the structure of Turkey's monetary potential. However different this shake-up may seem from the standpoint of the industrialist, it has been for the good of society in general, because the middle class, destroyed by inflation, has begun to revive with the high interest system. People's savings are now going for the distinct benefit of Turkey in general. The desire to save has been aroused in the populace. And the money saved has now begun to be used for the development of the nation."

During one part of our "tour of the economic horizon," broker Cevher Ozden says, "So, for this reason, the flames of inflation have died down because of reduced demand, and the economy has started to get back on the tracks," and returning to the topic of the basis of his business, adds, "As a nation, we must always give precedence to savings. Instead of looking to the nations which have been living off us for years, the time has come for us to live off them. Turkey's export revenues will be \$4 billion this year. This is not counting worker remittances. As I just said, everyone has geared up for exportation, because domestic demand is down and production is now beginning to force the customs walls. This is why I can use these figures optimistically."

Our conversation with Kastelli ended in a way that was short and to the point. Cevher Ozden said in conclusion, "We have too much potential just to look after ourselves. If we export only a part of it, it will be sufficient. We should especially look to the Islamic nations in exports."

#### [Conclusion]

We had planned at the conclusion of our economic tour to take one statement from each of our participants to formulate a general consensus on "the Turkish economy in the second half of 1981." Within this summary had taken shape certain problems--the spanner in the works--of a national economy moving step by step towards stabilization, as follows:

--Production fell in the construction and automotive sectors. A big slump began.

--The high cost of credit put industry in a hard spot.

--Investments fell owing, in particular, to the high cost of credit. The industrialist cannot think about investments when it is so hard to put existing capacity into operation.

--There is a still-unresolved marketing problem in agricultural and industrial products. Production is not up to the standards and quality of foreign markets. As long as there is no production and marketing system to conform to the structure of foreign demand, exportation cannot leap ahead despite devaluation and the domestic slump.

--Growth in unemployment and the number of jobless is becoming an important problem.

And now we are going to take the economic tour backward in time and cite certain parts of a 110-page study conducted at the first of the year by "TUSIAD," the Turkish Industrialists' and Businessmen's Association, to provide the opportunity for a comparison between the views expressed in this series of articles for the first 6 months and TUSIAD's views of the previous 6 months.

#### Domestic Economy

The slowdown in the Turkish economy continued on into 1980 and, for the first time since planning began, a rate of development near zero was registered. Development



in the agricultural sector was below the estimates, achieving only 2.1 percent growth. Despite increases in tobacco, sunflowers, tea and olives, production fell in wheat, rye, corn, hazelnuts, apples and pistachio nuts.

Though 9 percent growth was programmed for the manufacturing industry, output will not approach last year's level. The decline continued in textiles, shoes, food-stuffs, tobacco, paper and alcoholic beverages. On the other hand, production of cartons, fodder and sugar began to increase.

Despite 4.8 percent growth last year in construction, it has remained at 1.5 percent this year. The decline which began in 1979 in the business and services sector has gained considerable impetus.

The public sector has experienced considerable financing difficulties because of the failure to pass the tax laws at the beginning of 1980 and, despite all the conservation measures and cutbacks, the year is expected to close out with a deficit of 100.125 billion Turkish liras.

Doubtless, the first success of the 24 January decisions' monetary policy is the growth achieved in the export of industrial products as a result of the marked decline in production-for-export of agricultural products clearly shows that industry is gradually turning to foreign markets because it cannot sell at home. This outcome is one of the goals specifically planned by the 24 January decisions and which it had been impossible to realize for many years. The fact that the spurt in exports came in the final months of the year and the appearance of indications that this trend will continue show that the measures taken during the year are just beginning to produce results.

The printing of money and the money supply grew at more or less the same rate in both 1979 and 1980. However, GNP was lower in 1980 than in 1979 with production in the agricultural sector particularly low, reducing demand for industrial products on the domestic market, and this led industrialists to look for new markets abroad. However, the inability to apply an effective selective credit policy within the money and credit policy may be said to have had a negative effect on production in many sectors. For example, the increases registered in agricultural credits for January through November was only 38 percent. Moreover, there was no significant increase in medium-term credits.

There is no doubt that the authorities were a little late in developing measures to rejuvenate the savings eroded by inflation. It is also hard to say that interest rates were completely released by the July decree. To be precise, interest on private sector bonds was not released and is still regulated officially and bank interest is set by special agreement among the banks. The rates applied by the banks do not reflect true interest because of existing caps.

These drawbacks make new measures on interest necessary. Otherwise the savings-investment balance in the economy cannot be expected to even out at higher levels as the inflation-induced losses suffered by savers are not being made up completely. It is well to remember here that savers who invested in gold in 1980 got more than a 100-percent return.

It is impossible to increase investments without increasing existing savings in the economy. The most natural way to increase savings is to increase voluntary savings. It is necessary to avoid interest subsidy outside of investment areas of critical importance.

#### Law Should Be Passed

No one has any doubt that 1981 is being entered with great hopes for savings-investments and income distribution in the economy. It is considered normal that the trend by savers to enhance their income by shifting to time deposits should continue in 1981. While time deposits show an upward trend in an economy, doubtless investments will increase also. However, in order to realize the savings-investment balance in the country at steadily higher levels, it is necessary that existing obstacles in the money and capital markets continue to be removed. It would be useful in this regard if the government would pass the capital market law as soon as possible to keep savers from making mistakes or moving in the wrong direction.

#### SEE's Again

The weakest side of the 1981 program is doubtless the assignment of new investment tasks without any significant reform proposal to the SEE's, which everyone now admits are plagued by poor fiscal management and in need of urgent improvement. Another drawback is that the losses of the SEE's which are operating in the red continue to be financed by the budget. Covering SEE losses with new price hikes is the same as taxing consumers of SEE products, and it is impossible to allow this policy to continue within the principles of a market economy. In general, **/the See problem is a problem of management rather than a problem of ownership/** [in boldface]. In other words, a rational solution to the problems of most of the SEE organizations could be effected through a management reform accomplished without a change of ownership, with certain exceptions. One alternative worth trying in order to save the insolvent organizations from being a burden on the state budget and the Turkish Central Bank may be to devise specimen management contracts and turn them over to a consortium or board on which banks, insurance companies, labor and management groups and the people would be represented in specific proportions. Another form of solution to which thought may be given, however, would be immediate liquidation of the insolvent organizations without making this attempt in the SEE's which perform no public service, are not in a monopoly situation or have equivalents in the private sector.

It would be well in the approach to the SEE problem not to insist on the methods and formulas which have been tried for 20 to 30 years and to be fully aware at this point that Turkey has not 1 lira to waste in view of its growing internal and external problems. From this standpoint, the excess personnel at some of the SEE's should be transferred where necessary, the possibility of retraining if necessary should be looked into and personnel for whom places cannot be found despite all efforts should have their relations with the SEE's severed and be paid unemployment insurance from a fund to be set up under the SEE's. Excess personnel in an organization not only prevent those who work from being happy in their work and but also prevent efforts at improvement in the organization by always getting in the way somehow of its ability to make rational decisions.

If the 1981 budget sticks to its appropriations, it has the chance of being a more balanced budget as compared to 1980. Also, in order to accelerate economic development, public administration should become an entity which requires the least of the citizen's time and effort in his daily life. To do this, a guidebook should be prepared, as is done in Western nations, explaining the documents needed by the citizen in any application to state offices for business or redress, and unnecessary formalities should be quickly eliminated.

#### Construction Sector

Barring extremely bad weather, the agricultural sector can expect to perform at least on a par with 1980. As long as raw materials, energy and infrastructure problems do not press, the manufacturing industry can effect production and added value growth. We must not forget, however, that foreign input and especially obtaining oil depends to a significant degree on foreign resources. For this reason, even stopping the decline of 1979 and 1980 in the manufacturing industry in 1981 should be considered a success. It would be overly optimistic to expect very different results from 1980 in the construction sector. Certain improvements over 1980 may be expected in other services.

As a result, it may be estimated that it will be hard to achieve the GNP growth rate of around 3 percent projected in the 1981 program. However, it may be said that the backward movement will stop within the year and that a growth rate of around 1.6 percent may be achieved by the end of the year. Taking annual population growth into account, it is understood that the decline in per capita income will continue in 1981.

Studies conducted in TUSIAD show that GNP growth may be positive in 1981, but it is estimated that the rate of growth will stay at the 1.6 percent level. With the growth of foreign resources, total resources may show an increase of 2 percent.

Under these conditions, high investment growth is possible only by reduction of the rate of consumption. In fact, the desire for total investment of 5.5 percent means keeping the rate of consumption at 2 percent. The desire to keep the rate of public consumption at 4.2 percent will require keeping private consumption at 2.6 percent. In this way, the rate of private consumption, which is quite close to the rate of population growth, will allow no opportunity for growth in per capita consumption in 1981.

#### Foreign Economic Situation

Turkey's foreign economic relations in 1980 developed along generally positive lines as compared with 1979. According to year-end estimates, exports and imports will reach \$6.3 billion and \$2.8 billion respectively, representing respective increases of 42.2 percent and 25.6 percent. Exports are developing slowly despite the measures taken, rising only to 4.7 percent of gross domestic product from 3.7 percent in 1979. This represented a rise to .16 percent of world exports. Export-import ratio was 44.6 percent in 1979, but dropped to 40 percent in 1980.

## Drawback

Exports have began to respond to the encouragement measures taken since the first of the year and to register significant growth in real value by the end of the year. However, the time has come and gone to provide exporters a real place in foreign markets and especially to make it possible for them to be free to sell to importers the foreign exchange earned on exports in order to regain the foreign markets lost as a result of 20 or 30 years of wrong domestic and foreign monetary policies. While all producers in an economy are free to get the best return on their products in the marketplace and while support prices even apply to certain products, the failure to allow the exporter the freedom to obtain the price of the foreign exchange he earns is an important disincentive to export-oriented investments. Appropriating the difference between the free market price and the official rate of exchange for those who spend foreign exchange and especially for the import of goods and services not only victimizes the exporter in comparison with his competitors on the foreign market, but also reduces the ability of domestic industrial products to compete against imports at home.

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